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Research Update:

Russia-Based Sovcombank Outlook Revised To Positive On Potential Rising Systemic Importance; Affirmed At 'BB-/B'

Primary Credit Analyst:

Roman Rybalkin, CFA, Moscow (7) 495-783-40-94; roman.rybalkin@spglobal.com

Secondary Contact:

Sergey Voronenko, Moscow (7) 495-783-40-03; sergey.voronenko@spglobal.com

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Overview

- Sovcombank, following its merger with Rosevrobank in November 2018, reached a 1.4% share of systemwide retail deposits on a stand-alone basis, and we believe this points to Sovcombank's potential consideration as a systemically important bank.
- We also note that Sovcombank's capitalization will remain comfortable, aided by a planned slowdown in asset growth and a prospective capital increase.
- We are therefore revising the outlook on Sovcombank to positive from stable and affirmed the 'BB-/B' ratings.
- The positive outlook reflects our expectations that, over the next 12 months, Sovcombank retains its importance in domestic context.

Rating Action

On Jan. 24, 2019, S&P Global Ratings revised its outlook on Russia-based Sovcombank PJSC to positive from stable. We affirmed the 'BB' long-term and 'B' short-term issuer credit ratings.

Rationale

Sovcombank merged with its subsidiary Rosevrobank in November 2018 and became around 40% larger in terms of total assets on a stand-alone basis than at end-2017. Furthermore, the bank has increased its market share in retail deposits to around 1.4% of total as of Dec. 1, 2018, and has involvement in guarantee issuance for small enterprises for state purchases (around 25%-30% of the market, according to the bank's estimates). The positive outlook reflects our expectation that Sovcombank will maintain or increase this enlarged position.

We understand that in 2019 Sovcombank targets only modest growth rates of total assets, while seeking to reduce its corporate bond portfolio amid rising interest rates and the challenging environment. We also understand Sovcombank expects to pay only token dividends this year and seeks to raise additional capital from new and existing shareholders. Furthermore, we understand the bank is likely to resume expansion in 2020.

We estimate the bank's risk-adjusted capital (RAC) ratio was 6.1% at end-September 2018 and, given the aforementioned assumptions, anticipate this ratio will remain around 6.5% over the next two years. We note, however, that our projections do not include any further acquisitions or rapid growth in the bond portfolio--events that could cause the RAC ratio to deteriorate to below 5%. We see the maintenance of comfortable capitalization, ideally supported by a predictable financial policy, as an important support of our 'bb-' assessment of the bank's stand-alone credit profile and, as such, a determining factor for an upgrade.

Outlook

The positive outlook reflects our expectation that, in the next 12 months, Sovcombank's credit quality could strengthen on the back of a sustained, fairly robust balance sheet in a domestic context, as well as clearer indications that the Russian authorities now regard the bank as systemically important.

A positive rating action may follow if we consider Sovcombank has greater systemic importance in Russia. This may occur if the bank retains its market share in terms of assets and retail deposits. We would also take into account the Central Bank of Russia's confirmation of the bank's status as systemically important under the regulator's criteria. An upgrade will also hinge on sustainable levels of capitalization, with RAC ratio comfortably above 5%.

Even if Sovcombank becomes a systemically important bank, we may revise the outlook to stable if we expect Sovcombank's capitalization, as measured by our RAC ratio, to move below 5%. This may stem from faster-than-expected growth via acquisitions or a fast build-up of bond portfolio accompanied by fairly aggressive dividend policy.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
SACP	bb-	bb-
Anchor	bb-	bb-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Moderate (0)	Moderate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and	Average and (0)	Average and (0)
Liquidity	Adequate	Adequate
Support	0	0
ALAC Support	0	0

GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Sovcombank PJSC		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
Senior Unsecured	BB-	BB-

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